Process	Financial Reporting
Title	*Implementation of GASB Statement 33 (GASB 33)*
Observation	The Governmental Accounting Standards Board (GASB) issued a pronouncement to establish accounting and financial reporting standards for nonexchange transactions involving cash and other financial or capital resources. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. The nature of these transactions (lack of equal exchange) sometimes makes it difficult for the District to determine when a transaction has occurred that needs to be recorded in the general purpose financial statements. The District's decisions about when to include nonexchange transactions in the general purpose financial statements can have important effects on reported operating results and financial position and on users' ability to compare information across governments and over time. These effects may in turn influence decisions by governments and other resource providers about future revenue-raising and resource-allocation needs. The provisions of GASB 33 are effective for the District's fiscal year ending September 30, 2001.
Recommendation	The District should immediately assess the impact of GASB 33 as implementation may require adjustment to the reported opening fund balance of the general fund and the capital project funds. To assist OCFO in this effort, agencies should be required to provide information necessary for analysis of opening balances and current year revenue streams in the following four categories specified by GASB 33: • Derived tax revenues, which result from assessments imposed on exchange transactions (for example, income taxes and sales taxes) • Imposed nonexchange revenues, which result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (for example, property taxes and fines) • Government-mandated nonexchange transactions, which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform) • Voluntary nonexchange transactions, which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).
Management's Response	*The District has commenced the preparation of implementation of GASB Statement 33. We have prepared a matrix to indicate the affected accounts agency-wide as well as policy statements to provide unequivocal guidance to the germane agencies. The policy will provide guidance about when to report the results of nonexchange transactions, such as sales and income taxes, and federal grants. We are currently refining the policy with a view to obviating any questions that might arise during the implementation of the statement.*

Process	Financial Reporting
Title	Implementation of GASB Statement 34 (GASB 34)
Observation	GASB 34 establishes new financial reporting standards that fundamentally change the presentation of the basic financial statements and required supplementary information (RSI) for general purpose governments. GASB 34 financial statements will consist of: • *Management's discussion and analysis (MD&A).* MD&A should introduce the basic financial statements and provide an analytical overview of the government's financial activities. • *Basic financial statements.* The basic financial statements should include: – *Government-wide financial statements* prepared using accrual basis of accounting. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Each statement should distinguish between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units. Fiduciary activities, whose resources are not available to finance the government's programs, should be excluded from these statements. – *Fund financial statements* consisting of a series of statements that focus on information about the government's major governmental and enterprise funds, including its blended component units. Fund financial statements also should report information about a government's fiduciary funds and component units that are fiduciary in nature. – *Notes to the financial statements* • *Required supplementary information.* In addition to MD&A, this Statement requires budgetary comparison schedules to be presented as RSI along with other types of data as required by previous GASB pronouncements.
Recommendation	We recommend that a GASB 34 steering committee be established to assess the readiness of the District to implement this Statement and to coordinate the implementation efforts of all District agencies and component units. The steering committee should consist of District personnel from the OCFO, OFOS, major agencies, all component units, and representatives of the Mayor's office and Council.
Management's Response	*A request for proposal has been issued. Some offerors have responded to the request and an Evaluation Committee has been constituted to evaluate the submitted proposals. As soon as the Committee completes its evaluation, the services of some accounting firms would be engaged to assist the District in the implementation of GASB Statement 34.*

Material Weakness - Reconciliation of Bank Accounts and Cash Management

Observation and Recommendation

The District uses a pooled cash arrangement to manage cash collected by the Office of Tax and Revenue and other District agencies. As of September 30, 2000, there were 43 pooled cash bank accounts. During fiscal year 2000, timely reconciliations of the pooled cash accounts were not performed. The reconciliation of bank accounts to amounts recorded in the general ledger is an essential control to ensure cash receipts and disbursements are completely and accurately processed, and that cash balances are safeguarded from potential misappropriation. In order to ensure all bank accounts were properly reconciled and related adjustments were posted to the general ledger as of year-end, the District established, in June 2000, a cash management reconciliation unit (CMRU). Over 20 District employees and contractors whose sole responsibility was to reconcile all 43 bank accounts for the entire fiscal year staffed the CMRU. Numerous reconciling differences related to fiscal year 2000 and prior years were identified and resolved subsequent to year-end as a result of this process.

District policies and procedures related to cash management and related bank account reconciliations do not clearly specify whether it is the responsibility of the Office of Finance and Treasury (OFT) or the Office of Financial Operations and Systems (OFOS) to reconcile pooled cash bank accounts, or whether OFT, OFOS, or District agencies should resolve and post correcting entries for identified reconciling items to the general ledger. We recommend that the District clearly establish responsibilities for reconciling all pooled cash accounts and posting correcting entries for reconciling items to the general ledger within 30 days of receiving each month's bank statement.

Numerous District agencies also maintain bank accounts that are not part of the pooled cash arrangement. These agencies are responsible for reconciling these accounts to the general ledger timely and resolving all reconciling items for these accounts. We obtained a listing of all agency controlled bank accounts from OFT, noting that there are over 1,000 bank accounts maintained at various District of Columbia financial institutions under the District's taxpayer identification number. Over half of these bank accounts pertain to various loan programs established by the Department of Housing and Community Development or to school activity funds controlled by the District of Columbia Public Schools. Many of these bank accounts were not recorded in the general ledger during the fiscal year; however, OFT and OFOS worked with the agencies controlling these accounts to verify that all agency controlled bank accounts were reconciled and recorded in the general ledger subsequent to year-end.

We believe the number of bank accounts maintained by the District (both pooled cash and agency controlled) has contributed to untimely bank reconciliations. We recommend that the OFT and OFOS analyze the purpose of each bank account and determine ways to reduce the number of accounts maintained to a minimum. A reduction in the number of bank accounts should facilitate the timely reconciliation of the accounts, enhance monitoring of collateral requirements, and provide improved opportunities for investment earnings on the cash balances.

Management's Response

We agree. OFT will work with OFOS to determine the proper responsibility for reconciling accounts. We are also working with OFOS to install an automated reconciliation system and associated procedures and processes to speed-up the monthly reconciliation process.

Material Weakness - Accounting for Payroll Transactions

Observation and Recommendation

The District's payroll transactions originate in its two subsidiary payroll systems – UPPS and CAPPS. Payroll data is posted to the general ledger via conversion programs which assign the appropriate account code attributes. To assign correct account code attributes to each payroll transaction, agencies must maintain a classification crosswalk profile. If information in this profile is inaccurate, an agency's payroll will post, in part or in whole, to a default account in the general ledger. When this occurs, the payroll transactions are recorded in the general ledger but not to the correct cost center or expenditure budget. Agencies must then clear the payroll default account by reclassifying the transactions to the correct expenditure accounts. The distribution of payroll expenditures to the proper cost centers is essential for timely monitoring of budgetary compliance and for management's financial decision-making.

Our review of the payroll default account activity revealed numerous instances throughout fiscal year 2000 in which agencies did not remove the amounts from the default account timely. In late fiscal year 2000, OFOS required that all agencies reconcile and post adjustments to reduce their agency payroll default account balances to zero in order to facilitate the year-end closing process. We recommend that OFOS identify those agencies where payroll expenditures consistently post to the payroll default account and work with those agencies to ensure the propriety of the classification crosswalk profile. This will help ensure that all payroll is distributed to the appropriate general ledger accounts timely.

Management's Response

OFOS is in the process of updating policy on clearing payroll default accounts. The monthly closings require that the payroll default account be cleared to present an accurate financial picture at that point in time.

OFOS with SOAR PMO is currently testing plans to code the Uniform Personnel and Payroll system (UPPS) and Comprehensive Automated Personnel and Payroll System (CAPPS) with the applicable SOAR codes, so that automated posting will be accomplished.

Material Weakness - Disability Compensation Claims Management

Observation and Recommendation

The Department of Employment Services (DOES) currently administers the District's disability compensation program. When a District employee is disabled due to an on-the-job injury, the responsibility for the employee's compensation is transferred from the agency for which they work to the Office of Benefits Payments (OBP) of DOES. OBP paid out over $25 million in disability compensation benefits during fiscal year 2000 and has recorded an actuarially computed liability of over $200 million for benefits that it expects to pay in the future for workers currently eligible to collect disability compensation.

We examined a sample of claim files for participants receiving benefits under the program to ensure data provided to the actuary was complete and accurate. In our sample of 57 recipients (out of approximately 850 recipients), we identified 15 recipients whose claims data originally supplied to the actuary contained errors. Although these errors were ultimately corrected when reconciled to data maintained by the third party administrators after year-end, we recommend that OBP reconcile its benefit data to the data maintained by its third party administrators on a timely basis so that the disability compensation liability can be accurately determined at any point in time.

Additionally, we identified 11 beneficiaries that were being paid on a scheduled award basis. These participants' scheduled awards should have terminated in previous fiscal years; however, they continued to be paid into fiscal year 2000. The records of participants receiving scheduled awards are maintained manually by OBP. We recommend OBP automate its scheduled award database to ensure that scheduled award benefits are terminated timely.

When an employee collecting disability compensation returns to work, the employee returns to the agency where he or she previously worked. That agency is required to notify DOES to discontinue making disability compensation payments to the employee. However, we observed that this notification is not always completed by the agency; therefore, DOES is unaware that the employee has returned to work. This situation led to overpayments of approximately $700,000 to formerly eligible recipients of disability compensation in fiscal year 2000. DOES is attempting to collect approximately $1.5 million in cumulative overpayments as of September 30, 2000. We recommend that employees returning to work from disability leave be required to report initially to DOES to complete all the paperwork necessary to remove them from the disability compensation rolls. Additionally, OBP should notify DOES of employees returning to work from disability leave and should periodically run a match of its disability compensation against the active payroll database maintained by the Office of Pay and Retirement to ensure that employees are not collecting both a regular paycheck and a disability compensation paycheck.

Management's Response

The Labor Standards Bureau agrees. The Agency CFO and the Labor Standards Bureau have established new procedures to assure that benefit data is reconciled between the two offices so that disability compensation liability can be accurately determined at any given time.

In regards to the scheduled awards, the agency concurs with the finding and recommendation. Scheduled awards are determined for a claimant's impairment at the outset of eligibility for a closed period. In the past, these errors have occurred due to the failure to track the closing date of the authorized scheduled award on the Form CA-25. The agency has implemented the recommendation. The database has been automated to ensure that schedule award benefits are terminated timely.

Overpayments resulting from an injured worker returning to work and continuing to collect disability compensation benefits are due in major part to the failure of communications between the employing agency, the D.C. Office of Personnel (DCOP) and DOES. The Mayor addressed this matter by directing that all agencies assume the responsibilities for notifying DCOP and DOES as to when an injured worker returns to work. Moreover, his announced plans for the ready establishment of a telecommunications system enabling shared reports and information between the several departments and agencies will sharply reduce the likelihood that this situation will continue to occur. In the meantime, the Agency CFO and the Labor Standards Bureau have moved quickly to recoup any such overpayments to formally eligible recipients of disability compensation, and we have implemented a biweekly match of the disability compensation payroll and the active payroll database maintained by the Office of Pay and Retirement. This will ensure that employees are not fraudulently collecting disability compensation payroll checks and regular payroll checks.

The establishment and implementation of the Mayor's telecommunications sharing of reports and documentation, the reports (under the Mayor's directive) from the employing agency regarding the dates an injured employee returns to work, and the cross match with the disability compensation and D.C. Government payrolls currently underway will ultimately obviate this problem.

Material Weakness - University of the District of Columbia Transaction Processing

Observation and Recommendation

The University of the District of Columbia (UDC) expends approximately $80 million each year. UDC maintains separate bank accounts in addition to participating in the District pooled cash management program. It also maintains several detail subsidiary ledgers to account for its student tuition and grants receivable. UDC uses the District's System of Accounting and Reporting (SOAR) as its general ledger and is required to post and reconcile its separate bank accounts and receivable subledger activity to the amounts recorded in the general ledger. During fiscal year 2000, UDC experienced significant turnover in its financial management personnel. As a result, only limited financial activity, primarily payroll that defaulted to the payroll clearing account, was recorded in the general ledger. No subsidiary ledger or separate bank account activity was posted or reconciled to the general ledger during fiscal year 2000. Consequently, the financial position and results of operations of UDC were not determinable during the year, and UDC management was unable to close its books for fiscal year 2000 timely.

A contractor was subsequently hired to assist UDC in recording financial activity, reconciling bank accounts and subsidiary ledgers, posting adjustments, and preparing UDC's financial statements for fiscal year 2000. In the last half of the fiscal year, UDC management hired a new chief financial officer, a controller, and an accounting manager to improve its overall financial management. However, we recommend that UDC analyze its current accounting staffing model to ensure that adequate resources are allocated to the accounting function to ensure that all transactions are posted to the general ledger and all accounts are reconciled timely.

Management's Response

The Office of the Chief Financial Officer (OCFO) concurs with the observation and recommendation. The OCFO is currently reviewing the financial structure of all agencies, with particular emphasis on the University and PBC. A team of accounting professionals has been detailed to the University to assess current operations, systems and staffing. A recommended course of action will be presented to the Chief Financial Officer upon completion. OFOS will monitor the University's processing of transactions through the interim closing process to ensure that all transactions are posted to the General Ledger and all accounts are timely reconciled.

Material Weakness - Public Benefit Corporation Transaction Processing

Observation and Recommendation

The Public Benefit Corporation (PBC) expends approximately $110 million each year. During much of fiscal year 2000, PBC's accounting functions were performed by a third-party service organization. PBC maintains separate bank accounts in addition to participating in the District pooled cash management program. It also maintains several subsidiary ledgers to account for its third party receivables and various other accounting balances. PBC uses the District's SOAR system as its general ledger and is required to post and reconcile its separate bank accounts and receivable subledger activity to the amounts recorded in the general ledger. During fiscal year 2000, only limited financial activity was recorded in the general ledger. No subsidiary ledger activity was reconciled during fiscal year 2000. This prevented PBC management from fully analyzing the collectibility of its third party receivables to allow it to convert those receivables into cash on a timely basis. Additionally, it prevented PBC management from closing its books for fiscal year 2000 timely.

A contractor was subsequently hired to assist PBC in recording financial activity, reconciling bank accounts and subsidiary ledgers, posting adjustments, and preparing PBC's financial statements for fiscal year 2000. As PBC works through the aspects of a proposed restructuring during fiscal year 2001, we recommend that particular attention be given to ensuring the financial activity of PBC is accurately and timely recorded in order to facilitate the important financial decisions which will need to be made regarding PBC's ongoing financial operations.

Management's Response

The Office of the Chief Financial Officer (OCFO) concurs with the observation and recommendation. The OCFO is currently reviewing the financial structure of all agencies with particular emphasis on the University and PBC. OFOS will monitor the PBC's processing of transactions through the interim closing process to ensure that all transactions are posted to the General Ledger and all accounts are timely reconciled. As the District works through the proposed restructuring during FY 2001, the OCFO will work with the appropriate parties to ensure daily financial/accounting operations are not jeopardized and that a smooth transition to the new organization is achieved which supports all requirements of Generally Accepted Accounting Principles (GAAP).

Reportable Condition - Lack of Timely Entry of Transactions into SOAR

Observation and Recommendation

The foundation of successful financial and operational stewardship of governmental entities is an effective management information system that provides accurate, reliable and timely data in a format that allows management to make informed decisions throughout the year. Inherent in such a system is the existence of a knowledgeable, trained professional staff to manage the input, reconciliation, and correction of information. The District's financial operations are highly decentralized, with substantially all transactions being initiated and documented at District agencies.

Based upon the volume of transactions that were processed in the District's general ledger closing period (period 13), it is apparent that many agencies use the post-closing period to "clean up" transactions that have been previously posted during the fiscal year. Additionally, we observed that many agencies reconcile most of their balance sheet accounts only at the end of the fiscal year. This is a time consuming process, requiring agency personnel to review a full year of transactions, to reconcile those transactions and to adjust the general ledger account balances. Finally, we observed that many reconciling items that were identified in the normal course of reconciling accounts were not recorded timely because of a lack of coordination between agencies in resolving and recording the appropriate journal entries (such as clearing reconciling items on bank statements).

We recommend that the District continue its initiative to improve its financial management infrastructure. We believe that one focus of this effort during the next year should be on providing specialized training to financial management personnel that will highlight how to identify and resolve reconciling items timely. We further recommend that the District consider requiring agencies to execute a "hard close" at specific points during the fiscal year to ensure that period 13 is used only for adjusting entries based on the year-end account reconciliations performed.

Management's Response

OFOS will conduct two quarterly interim closings at the end of March 2001 and the end of June 2001. Interim closing instructions direct agencies to review, reconcile and "clean-up" balance sheet accounts as of the dates indicated. OFOS will review the work performed by agencies for compliance with interim closing instructions.

These closings will assist all agencies and central offices in getting caught up. Additionally, the fiscal year-end closing will then concentrate on resolving issues for the last three months of the fiscal year.

Reportable Condition - Accounting and Reporting of Intra-District Transactions

Observation and Recommendation

The District offers its citizens a wide range of services, and also provides many of those same services to agencies within the District. For example, the University may provide job training services contracted for by the Department of Human Development. When agencies engage in intra-District transactions, the buyer and seller agencies are required to document the nature of the relationship, the cost of the services provided, and the payment terms. The seller agency then records revenue, and the buyer agency records an expenditure to account for the transaction. These intra-District transactions are eliminated at year-end for financial reporting purposes.

During our testing of the intra-District closing packages, we observed that numerous intra-District transactions were not recorded during the year and were reconciled only at year-end. Further, we observed many instances where the seller agency reported that it had provided a service to another District agency, but the buyer agency had not recorded the transaction. Both instances, we believe, were caused by a failure of the buyer and seller agencies to communicate with each other. Resolution of the out-of-balance conditions require a significant investment of time by OFOS to identify and record the entries required to be eliminated at year-end. We recommend that the agency Chief Financial Officers be required to report to OFOS all intra-District transactions over a certain dollar threshold to allow OFOS personnel to monitor whether these transactions are being recorded timely. We also recommend that OFOS enforce its policy requiring agency personnel to record and reconcile all intra-District transactions timely.

Management's Response

OFOS will review the auditor's recommendation that all intra-District transactions over a certain dollar amount threshold are reported to OFOS for monitoring and to ensure they have been recorded.

During the "hard" closings in March and June of 2001, intra-District transactions will be a specific focus for monitoring of their recording in SOAR.